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State of Idaho

Legislative Services Office

Individual Entity Audit Report

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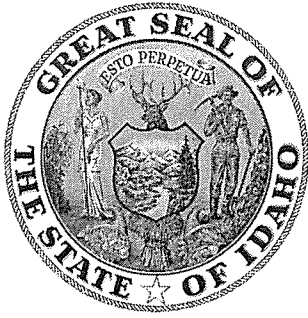
A communication to the Joint Finance-Appropriations Committee

**IDAHO STATE BOARD OF CORRECTION  
CORRECTIONAL INDUSTRIES**

**FY 2009**

**Report OP23109  
Date Issued: January 7, 2010**

*Serving Idaho's Citizen Legislature*



Don H. Berg, Manager

**Idaho Legislative Services Office  
Legislative Audits Division**

**IDAHO STATE BOARD OF CORRECTION  
CORRECTIONAL INDUSTRIES**

## **SUMMARY**

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### **PURPOSE OF AUDIT REPORT**

We have audited the financial statements of the Idaho State Board of Correction, Correctional Industries for fiscal year 2009, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine whether Correctional Industries' statements are materially accurate and reliable, and that it complied with laws and regulations affecting fiscal operations.

### **CONCLUSION**

We conclude that Correctional Industries' financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on Correctional Industries' financial statements.

### **FINDINGS AND RECOMMENDATIONS**

There are no findings and recommendations in this report.

A copy of this report is available at <http://www.legislature.idaho.gov/audit> or by calling 208-334-4832.

### **PRIOR FINDING AND RECOMMENDATION**

The prior audit report for the fiscal year ended June 30, 2008, had one finding and recommendation.

1. Material errors in the financial statements and other accounting errors were not detected by Correctional Industries' internal control procedures.

We recommended that Correctional Industries review the internal controls over the financial statements and notes, and strengthen the processes as appropriate. This review should include the processes for ensuring the accuracy and completeness of the financial statements and note disclosures.

This issue was evaluated in the 90-day follow-up report issued in April 2009 and is considered closed. Both the prior audit report and the 90-day follow-up report are available on our Web site.

**AGENCY RESPONSE**

Correctional Industries has reviewed the report and is in general agreement with its contents.

This report is intended solely for the information and use of the State of Idaho, Idaho State Board of Correction, and Correctional Industries and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the general manager, Martin Thomas, and his staff.

**ASSIGNED STAFF**

Chris Farnsworth, CPA, Managing Auditor

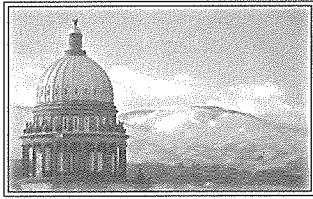
J.E. Bowden, CPA, Staff Auditor

OP23109

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# Legislative Services Office Idaho State Legislature

*Serving Idaho's Citizen Legislature*

**Jeff Youtz**  
Director

January 7, 2010

Unqualified Opinion on  
Basic Financial Statements

## Independent Auditor's Report

Martin Thomas, General Manager  
Correctional Industries  
1301 N. Orchard Street  
Boise, ID 83706

Robin Sandy, Chair  
Idaho State Board of Correction  
1301 N. Orchard Street  
Boise, ID 83706

Dear Mr. Thomas and Ms. Sandy:

We have audited the accompanying basic financial statements of the Idaho State Board of Correction, Correctional Industries, as of and for the year ended June 30, 2009, which collectively comprise Correctional Industries' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Correctional Industries' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Idaho State Board of Correction, Correctional Industries, as of June 30, 2009, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2010, on our consideration of Correctional Industries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered when assessing the results of our audit.

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**Mike Nugent, Manager**  
Research & Legislation

**Cathy Holland-Smith, Manager**  
Budget & Policy Analysis

**Don H. Berg, Manager**  
Legislative Audits

**Glenn Harris, Manager**  
Information Technology

Correctional Industries has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Sincerely,

A handwritten signature in dark ink, appearing to read "Don H. Berg", with a stylized flourish at the end.

Don H. Berg, CGFM, Manager  
Legislative Audits Division

STATE OF IDAHO  
CORRECTIONAL INDUSTRIES  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2009

	Enterprise Fund <u>June 30, 2009</u>
<b>ASSETS</b>	
Current Assets	
Cash	\$2,636,067
Investment (CD)	1,098,618
Accounts Receivable, Net	948,089
Prepaid Expenses	404,089
Inventory, Net	1,212,540
Construction in Progress	216,599
Total Current Assets	<u>\$6,516,002</u>
Noncurrent Assets	
Capital Assets, Net	<u>\$2,062,990</u>
Total Assets	<u><u>\$8,578,992</u></u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable	\$118,326
Other Payables	84,169
Payroll and Benefits Payable	104,636
Compensated Absences Payable	38,901
Warranty and Showroom Reserve	4,263
Unearned Revenue	8,978
Total Current Liabilities	<u>\$359,273</u>
Noncurrent Liabilities	
Compensated Absences Payable	<u>\$47,545</u>
Total Liabilities	<u><u>\$406,818</u></u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	\$2,062,990
Unrestricted	6,109,184
Total Net Assets	<u>\$8,172,174</u>
Total Liabilities and Net Assets	<u><u>\$8,578,992</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF IDAHO  
CORRECTIONAL INDUSTRIES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Fund June 30, 2009
OPERATING REVENUES	
Sales	\$8,875,531
Total Operating Revenues	<u>\$8,875,531</u>
OPERATING EXPENSES	
Cost of Goods Sold	\$4,438,924
Personnel Costs	2,151,983
Indirect Inmate Labor	154,939
Travel and Training	33,442
Supplies	60,907
Depreciation Expense	333,430
Building, Equipment, and Maintenance	660,046
Utilities	198,837
Advertising, Insurance, and Professional Fees	118,017
Other Expenses	167,961
Write-Down of Inventory Value	803
Total Operating Expenses	<u>\$8,319,289</u>
Operating Income	\$556,242
NON-OPERATING REVENUES (EXPENSES)	
Interest Revenue	93,317
Contribution to Department of Correction	(407,500)
Total Non-Operating Revenues (Expenses)	<u>(\$314,183)</u>
NET INCOME BEFORE DISCONTINUED OPERATIONS	\$242,059
DISCONTINUED OPERATIONS	
Gain from discontinued operations	<u>1,756</u>
INCREASE (DECREASE) IN NET ASSETS	\$243,815
BEGINNING NET ASSETS, AS RESTATED	<u>7,928,359</u>
ENDING NET ASSETS	<u><u>\$8,172,174</u></u>

The accompanying notes are an integral part of these financial statements.



STATE OF IDAHO  
CORRECTIONAL INDUSTRIES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Fund <u>June 30, 2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers and other departments	\$8,761,400
Cash Payments to Suppliers for Goods and Services	(6,101,174)
Cash Payments to Employees for Services	<u>(2,137,368)</u>
Net Cash From Continuing Operating Activities	\$522,858
Net Cash From Discontinued Operating Activities	1,756
Net Cash to Contributions	<u>(407,500)</u>
Net Cash From Operating Activities	<u>\$117,114</u>
 <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Cash Payments for Purchase of Capital Assets	<u>(\$289,112)</u>
Net Cash From Capital Financing Activities	<u>(\$289,112)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash invested in Certificate of Deposit	(\$30,317)
Cash Received for Interest	<u>93,317</u>
Net Cash From Investing Activities	<u>\$63,000</u>
 Net Decrease in Cash	(\$108,998)
Cash at Beginning of Year	<u>2,745,065</u>
Cash at End of Year	<u><u>\$2,636,067</u></u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>	
Operating Income From Operating Activities	\$556,242
Adjustments to Reconcile Operating Income to Net Cash From Operating Activities:	
Depreciation Expense	333,430
Changes in Accounts Receivable	(104,673)
Change in Prepaid Expense	(63,825)
Changes in Inventory	229,892
Changes in Construction in Progress	(146,452)
Changes in Payables	(279,046)
Inventory Write-down	802
Education Program Expenses	(407,500)
Gain on Discontinued Operations, Net of Depreciation	<u>(1,756)</u>
Net Cash From Operating Activities	<u><u>\$117,114</u></u>

The accompanying notes are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

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## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

### **Financial Reporting Entity**

Correctional Industries' financial statements have been prepared in conformity with United States generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant Correctional Industries' accounting policies are described below.

Correctional Industries is established by Idaho Code and reports to the Idaho State Board of Correction.

Correctional Industries contributes to the cost-sharing, multi-employer Public Employee Retirement System of Idaho (PERSI). PERSI is administered by the State of Idaho, and Correctional Industries is not the major participant in the plan; therefore, the plan's financial statements are not included in this report.

### **Basis of Presentation**

Enterprise Fund Financial Statements – Correctional Industries is a government entity engaged in business-type activities. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows display information about Correctional Industries' financial operations for the year ended June 30, 2008. These statements include all financial activity of Correctional Industries. These activities are financed primarily by fees charged for goods provided to customers. Such fees are classified as operating revenues. All other revenue is classified as non-operating.

### **Measurement Focus and Basis of Accounting**

Enterprise funds, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, are required to apply applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: *Statements and Interpretations of Financial Accounting Standards Board (FASB)*; *Accounting Principles Board Opinions*; and *Accounting Research Bulletins of the Committee on Accounting Procedure*. In addition, an enterprise activity may apply all FASB statements and interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. Correctional Industries has elected not to follow FASB pronouncements issued after November 30, 1989.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities are presented in the Statement of Net Assets. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**Cash**

Cash represents Correctional Industries' interest in an internal investment pool maintained by the State. The State Treasurer is the investment officer for the money on deposit in the State treasury. Idaho Code, Sections 67-1210 and 67-1210A, governs investment policies of the State Treasurer. Interest earned on Correctional Industries' portion of the investment pool is credited to Correctional Industries.

**Accounts Receivable**

Receivables consist primarily of the sale of goods to customers and are referred to as "trade receivables." Trade receivables are accounted for net of an allowance for doubtful accounts. Below is a schedule of receivable balances at June 30, 2008.

<u>FY 2009</u>	<u>Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Accounts Receivable</u>
Trade Receivables	\$950,089	\$2,000	\$948,089

**Inventory**

Inventory consists of raw materials and supplies, work-in-process, and finished goods. Raw materials and supplies are valued at cost, less a reserve of \$28,704 for obsolete items. Correctional Industries has established a reserve for finished goods in the amount of \$9,294. Correctional Industries estimates that the cost, less the reserve, approximates market value. Work-in-process inventory is carried at actual accumulated cost. Finished goods inventory is carried at standard costs, with any actual cost variance expensed at the time of production.

**Capital Assets**

Capital assets are reported at cost, less any accumulated depreciation. Only assets with a value of \$5,000 or greater are capitalized. Depreciation is recorded by use of the straight-line method over a pre-determined useful life as shown below.

<u>Assets</u>	<u>Years</u>
Buildings	30-40
Improvements Other Than Buildings	10-40
Machinery, Equipment and Vehicles	3-5

Correctional Industries paid for the construction of some buildings. The value of these buildings is included in the financial statements as capital assets and is depreciated over a 40-year period with one building being depreciated over a 30-year period. Some buildings are provided by the Department of Correction. The value of these buildings is not included in Correctional Industries' financial statements. Correctional Industries does not pay the Department of Correction for use of these buildings.

Correctional Industries is also in the process of implementing Global Shop, an enterprise resource planning software. The value of this item is recorded on the financial statements as "construction in progress."

Capital assets at June 30, 2009 are shown below.

	Balances at July 1, 2008	Increases	Decreases	Balances at June 30, 2009
<b>Capital Assets Not Being Depreciated:</b>				
Construction In Progress	\$70,147	\$329,590	(\$183,138)	\$216,599
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$70,147</b>	<b>\$329,590</b>	<b>(\$183,138)</b>	<b>\$216,599</b>
<b>Capital Assets Being Depreciated:</b>				
	Beginning Balance	Additions	Retirements	Ending Balance
Building	\$1,172,550	\$104,419	\$0	\$1,276,969
Equipment	3,279,551	162,777	(208,392)	3,233,936
Marketing	0	20,250	0	20,250
<b>Total Historic Cost</b>	<b>\$4,452,101</b>	<b>\$287,446</b>	<b>(\$208,392)</b>	<b>\$4,531,155</b>
<b>Less Accumulated Depreciation</b>				
Building	(\$630,407)	(\$49,479)	\$0	(\$679,886)
Equipment	(1,712,720)	(280,576)	208,392	(1,784,904)
Equipment	0	(3,375)	0	(3,375)
<b>Total Accumulated Depreciation</b>	<b>(\$2,343,127)</b>	<b>(\$333,430)</b>	<b>\$208,392</b>	<b>(\$2,468,165)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$2,108,974</b>	<b>(\$45,984)</b>	<b>\$0</b>	<b>\$2,062,990</b>
<b>Total Capital Assets, Net</b>	<b>\$2,179,121</b>	<b>\$283,606</b>	<b>(\$183,138)</b>	<b>\$2,279,589</b>

In fiscal year 2009, Correctional Industries created a DVD to promote its program. The sales benefits from distribution of the DVD are estimated to continue for three years. For this reason, the costs associated with the production of the DVD are being capitalized and depreciated for three years.

Maintenance and repairs are charged to operations as incurred. When capital assets are disposed of accumulated depreciation is deducted from the original cost, and any gain or loss arising from its disposal is credited or charged to operations.

### Accounts Payable

Accounts payable are vendor-payment transactions occurring after the June 30 fiscal year-end for goods and services received by Correctional Industries prior to June 30.

### Other Payables

These amounts are comprised primarily of inmate payroll and related taxes.

### Warranty and Showroom Reserve

This amount is an estimate of costs to repair product deficiencies after the products have been delivered to the customers.

### Net Assets

Net assets represent the difference between assets and liabilities and are divided into two components: (1) invested in capital assets, net of related debt and (2) unrestricted.

1. Invested in capital assets, net of related debt, consist of: capital assets, net of accumulated depreciation and reduced by any outstanding notes or other loans attributable to acquisition, construction, or improvement of those assets.

2. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." Unrestricted assets are generally available for general operations.

### **Budgets**

Idaho Code, Section 20-419 provides Correctional Industries with a perpetual appropriation; therefore, spending authority is not limited by the legislature.

## **NOTE 2. DEPOSITS AND INVESTMENTS**

### **Cash**

Correctional Industries participates in the State Treasurer's Pooled Idle Fund. The fund is an internal investment pool managed by the State Treasurer's Office on behalf of the participants. Money not needed to meet immediate operating obligations is invested in accordance with Idaho Code, Sections 67-1210 and 67-1210A. Participation in the pool is involuntary. Idaho Code restricts the State Treasurer to certain types of investments. The State Treasurer's Pooled Idle Fund is an unrated internal investment pool. The fair value of investments based on Correctional Industries' participation in the pool as of June 30, 2009 was \$2,636,067.

### **Credit Risk**

State law limits investments to those listed above. The State Treasurer has no investment policy that would further limit its investment choices.

### **Interest Rate Risk**

The State Treasurer does not have a formal investment policy limiting investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

### **Investments**

Correctional Industries renewed a certificate of deposit in February 2009 worth \$1,068,300. The interest rate is 2.2%, and interest is deposited quarterly. The certificate of deposit will mature on February 12, 2010. The fiscal year end value was \$1,098,618. This certificate of deposit is subject to custodial risk.

## **NOTE 3. COMPENSATED ABSENCES**

State of Idaho employee benefits include vacation and sick leave allowances. Overtime may be earned under provisions of the Fair Labor Standards Act and State law. Overtime is commonly referred to as "compensatory time" or "comp time," since employees may take time off for the accrued overtime. For purposes of earning and accruing overtime, there are three general classes of employees.

1. Those who earn overtime at 1.5 times regular pay rates and may be paid for the overtime or take time off.
2. Those who earn overtime at the same rate as regular pay rates and may only take time off.
3. Those ineligible for overtime.

Upon termination, the following accrued leave balances are paid:

1. Vacation leave
2. Overtime for those eligible for payment

All vacation and compensatory pay is accrued as a payroll liability in the financial statements when the benefit is incurred.

As of June 30, 2009, the following are changes and values of leave accrued and used by employees of Correctional Industries:

<u>Fiscal Year 2009</u>	
July 1, 2008	\$85,839
Increases	13,621
Decreases	<u>(13,014)</u>
June 30, 2009	<u><u>\$86,446</u></u>

Of the total amount at June 30, 2009, Correctional Industries estimates, based on past experience, that \$38,901 is due within one year.

The Sick Leave Reserve Fund is used to pay health insurance costs for retirees based on the amount of unused accumulated sick leave at their date of retirement. Upon retirement, 50% of the unused sick-leave value, not to exceed 600 hours, is used by PERSI to purchase supplemental health insurance for the retiree. The obligation is advanced-funded by remitting a percentage of payroll to PERSI to cover future insurance premiums. The rate of contributions as a percent of covered salary at June 30, 2009 was 0.65 percent for State employees.

#### **NOTE 4. PENSION PLAN**

PERSI, a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. Designed as a mandatory system for eligible State and school district employees, the legislation provided for political subdivisions to participate by contractual agreement with PERSI.

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits when they reach the age specified by their employment classification. For each year of credited service, the annual service retirement allowance is 2.0% or 2.3% (depending on employee classification) of the average monthly salary for the highest consecutive 42 months.

For the year ended June 30, 2009, the required contribution rate for general employees was 10.39% and 6.23% of covered payroll for Correctional Industries and its employees, respectively. Correctional Industries' contributions required and paid were \$162,691 for fiscal year 2009.

#### **NOTE 5. POST-EMPLOYMENT BENEFITS**

The State funds, or partially funds, post-employment benefits relating to health, disability, and life insurance. Correctional Industries participates in the State's post-employment benefit programs. The State administers the retirees' health care plan, which allows retirees to purchase health care insurance coverage for themselves and eligible dependents. The State provides long-term disability

for active employees who become disabled, generally up to a maximum age of 70. The State provides basic life and dependent life coverage for disabled employees, generally up to a maximum age of 70. For up to 30 months following the date of disability, an employee is entitled to continue health care coverage. Benefit costs are paid by Correctional Industries through a rate charged by the State. The primary government is reporting the liability for the retirees' health care and long-term disability benefits. Specific details of these benefits are available in the State *Comprehensive Annual Financial Report (CAFR)*, which is available from the Office of the State Controller.

#### **NOTE 6. OPERATING LEASES**

Correctional Industries committed to leases for office space and manufacturing equipment in fiscal year 2009. In fiscal year 2009, \$325,690 was spent on operating leases. The Hewlett Packard Indigo machine lease expires in 2011. All leases will expire by the end of fiscal year 2012. Future minimum lease payments are shown below.

<u>Fiscal Year Ending June 30, 2009</u>	<u>Total</u>
2010	\$325,690
2011	325,690
2012	<u>226,356</u>
Total Future Minimum Payments	<u>\$877,736</u>

#### **NOTE 7. RISK MANAGEMENT**

The State maintains a combination of commercial and self-insurance to cover the risk of loss to which it may be exposed. This is accomplished through the Risk Management Fund and Group Insurance Fund, as well as various outside insurance providers.

The Risk Management Fund manages property and general liability risk. The Fund also finances and accounts for risks not covered by Group Insurance and outside insurance providers. General liability claims are self-insured up to the Idaho Tort Claims Act maximum for each claim. Comprehensive collision and physical damage to covered vehicles are self-insured for replacement cost.

The Group Insurance Fund is used to account for and finance life, health, and disability insurance programs. Long-term disability benefits within Group Insurance are partially insured through other insurers.

All State entities may participate in the Risk Management and Group Insurance programs. Payments are made to the Risk Management Fund based on actuarial estimates, loss experience, exposure, and asset value covered. Payments made to the Group Insurance Fund are based on actuarial estimates of the amounts needed to pay for negotiated coverage, based on projected claims experience.

#### **NOTE 8. GAIN FROM SALE OF ASSETS HELD FOR RESALE FROM DISCONTINUED OPERATIONS.**

In the Spring of 2007, Correctional Industries discontinued its garment shop operation. All capital assets were sold, and the gains were recognized at the time of discontinuance. However, they continue to sell the remaining inventory. In fiscal year 2009, sales related to this inventory resulted in a recognized gain of \$1,756.

#### **NOTE 9. RELATED-PARTY TRANSACTIONS**

Some buildings are provided by the Department of Correction. The value of these buildings is not included in Correctional Industries' financial statements. A Correctional Industries employee completes some work for the Department of Correction. Correctional Industries receives no compensation from the Department of Correction for the work of this employee.

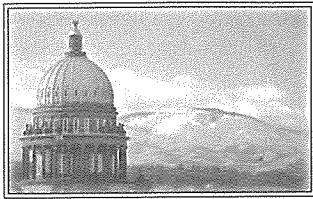
#### **NOTE 10. COMMITMENTS**

Correctional Industries is expecting additional expenses of \$114,000 in fiscal year 2010, related to the implementation of its ERP software, Global Shop. Expenses incurred in fiscal year 2009, related to this software, have been recorded in "Construction in Progress."

#### **NOTE 11. PRIOR PERIOD ADJUSTMENT**

Correctional Industries restated the previous year's net assets by \$4,377. This restatement was due to prior period adjustments that resulted from correcting invoices and credit memos related to previous fiscal years.





# Legislative Services Office Idaho State Legislature

*Serving Idaho's Citizen Legislature*

**Jeff Youtz**  
Director

January 7, 2010

Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance  
with Government Auditing Standards

Martin Thomas, General Manager  
Correctional Industries  
1301 North Orchard Street, Suite 110  
Boise, ID 83720-0037

Robin Sandy, Chair  
Board of Correction  
1299 N. Orchard Street, Suite 110  
Boise, ID 83720

Dear Mr. Thomas and Ms. Sandy:

We have audited the financial statements of Correctional Industries as of and for the year ended June 30, 2009, and have issued our report thereon dated January 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered Correctional Industries' internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Correctional Industries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Correctional Industries' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

**Mike Nugent, Manager**  
Research & Legislation

**Cathy Holland-Smith, Manager**  
Budget & Policy Analysis

**Don H. Berg, Manager**  
Legislative Audits

**Glenn Harris, Manager**  
Information Technology

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Correctional Industries' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State of Idaho, Correctional Industries, and the Board of Correction, and is not intended to be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Don H. Berg", with a long horizontal flourish extending to the right.

Don H. Berg, CGFM, Manager  
Legislative Audits Division

## AGENCY RESPONSE

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January 7, 2010

Mr. Don Berg  
Legislative Services Office  
Statehouse  
PO Box 83720  
Boise, Idaho 83720-0054

Dear Mr. Berg:

Correctional Industries (CI) acknowledges that we have received the audit report from Legislative Audit for the Fiscal Year Ended June 30, 2009. CI has reviewed the Audit report and accepts it as presented.

We appreciate your staff's courteous and professional manner during the Audit at Correctional Industries. We thank you for your assistance.

Sincerely,

Martin Thomas  
General Manager

# APPENDIX

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## **HISTORY**

The 1974 Idaho Legislature passed the Correctional Industries Act, creating the Correctional Industries Commission to oversee a manufacturing entity exempt from many State regulations. Prior to that time, the manufacturing entity operated as productive enterprises in prison facilities.

The manufacturing entity operated in this manner until 1980. At that time, the Correctional Industries Commission was abolished, and the Board of Correction assumed supervisory responsibility. The financial affairs of Correctional Industries were also moved from a private bank account to an account in the Office of the State Treasurer. The records of receipts and expenditures are kept by the Office of the State Controller.

## **STATUTORY AUTHORITY**

The statutory authority for Correctional Industries is found in Chapter 4, Title 20 of the Idaho Code.

Statutory authority allows the Board to enter into contracts and agreements (Idaho Code, Section 20-408), and exempts Correctional Industries from powers and duties of the State purchasing agent (Idaho Code, Section 20-416).

## **PURPOSE**

The general purpose of Correctional Industries is to provide opportunities for incarcerated persons to obtain job skills and develop positive work attitudes.

The mission of Correctional Industries is multifaceted: first, to reduce inmate idleness by employing inmates through safe, productive, and rehabilitative training and employment enterprises, which should teach valuable job-seeking and job-keeping skills; second, to produce and market modern, cost-effective, quality products and services at competitive prices to meet the needs of authorized markets; and third, to save taxpayer dollars and raise sufficient revenue to sustain operating costs of Correctional Industries' programs and help offset costs of future expansion.

## **FUNDING**

Correctional Industries is funded primarily by revenue generated from the sale of merchandise. Merchandise currently produced and sold includes license plates, signs, furniture, and various custom-built projects requiring skills in metalwork, upholstery, and carpentry.

## **ORGANIZATION**

Correctional Industries is a division of the Department of Correction. Correctional Industries' daily operations are supervised by a general manager and organized into four functional areas: (1) accounting and administration, which provides accounting, purchasing, and business management services to the other divisions; (2) sales and marketing, which provides sales support and research into new product lines; (3) production, which provides manufactured goods for sale; and (4) transportation, which ensures delivery of goods to purchasers.

Correctional Industries operates the following shops:

**Print and Sign Shops**

- Print Shop: Offers complete printing services, including design, layout, production, and delivery.
- Sign Shop: Produces various traffic, informational, and miscellaneous signs.

**Metal Shop**

- Produces metal products for a wide variety of users and specializes in detention furniture, bunks, tables, and storage units.

**Tag Shop**

- Produces authorized State of Idaho license plates for automobiles, trailers, recreation vehicles, and commercial trucks, as well as a complete line of personalized plates.

**Furniture Shops**

- Drafting Shop: Provides furniture and panel system designs for Correctional Industries.
- Carpentry Shop: Produces a large volume of standard wood office products; specializes in solid oak desks, bookcases, credenzas and accessories.
- Upholstery Shop: Produces a standard line of office chairs and seating; reupholsters and restores existing furniture.
- Panel Shop: Offers large-scale, custom carpentry and piecework on special design furniture projects; builds and installs systems furniture, including design, layout, and production.

**Decal Shop**

- Produces State-authorized decals for validation and registration of boats, vehicles, and trailers.

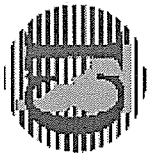
**Garment Shop**

- Produced inmate clothing for sale to the Department of Correction and local jails. This shop was discontinued in fiscal year 2007.

**Prison Industries Enhancement Certification Program**

- Provides workforce to the private sector at federal minimum wage and higher.

Correctional Industries' organizational chart is on the following page.



# Correctional Industries Organizational Chart

